



The Secretary of Energy
Washington, DC 20585

December 2, 2002

Mr. Scott B. Gudes
Deputy Under Secretary for
Oceans and Atmosphere
U.S. Department of Commerce
Washington, D.C. 20230

Dear Mr. Gudes:

Thank you for your recent letter requesting comments from the Department of Energy on an appeal by the Millennium Pipeline Company, L.P. (Millennium) from the State of New York's objection to Millennium's consistency certification for a proposed natural gas pipeline.

On September 19, 2002, the Federal Energy Regulatory Commission (FERC) issued a final Order authorizing Millennium to construct and operate a 424-mile natural gas pipeline from an interconnection with facilities to be constructed by TransCanada PipeLines Limited at the United States-Canada border at Lake Erie through New York to a terminus in Mount Vernon. According to the FERC final Order, when the pipeline is finally constructed, it will help meet increasing energy needs of the northeast United States, including New York City, where new infrastructure is necessary to bring natural gas supplies to market.

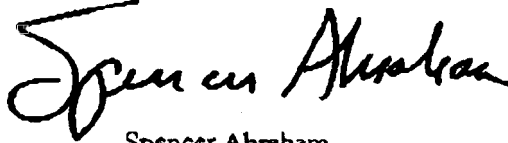
The Department of Energy believes that FERC has correctly determined there is a serious need for new natural gas infrastructure in the northeast United States, that the Millennium Pipeline project can help meet that need, and that there is no reasonable alternative to the project. Because FERC has responsibly and thoroughly evaluated the environmental issues inherent in the Millennium Pipeline project, we concur with FERC's conclusion that the proposed Hudson River crossing at Haverstraw Bay is the preferred route for the Millennium Pipeline project. The Department of Energy supports FERC's comments on New York's objection, submitted on November 15, 2002, and urges the Secretary of Commerce to override New York State's consistency objection. The enclosed comments provide further support for the Millennium Pipeline project.



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Thank you for the opportunity to comment on Millennium's appeal. If you have any questions regarding these comments, please contact Mr. Carl Michael Smith, Assistant Secretary, Office of Fossil Energy, at (202)586-6660, (mike.smith@hq.doe.gov), or Mr. James Slutz, Deputy Assistant Secretary for Natural Gas and Petroleum Technology, at (202)586-5600, (james.slutz@hq.doe.gov).

Sincerely,

A handwritten signature in black ink that reads "Spencer Abraham". The signature is fluid and cursive, with the first name "Spencer" and last name "Abraham" clearly legible.

Spencer Abraham

Enclosure

cc: Mr. Branden Blum
Senior Counselor
Office of the Assistant General Counsel
for Ocean Services
National Oceanic and Atmospheric Administration
U. S. Department of Commerce

COMMENTS
OF THE U.S. DEPARTMENT OF ENERGY
ON THE FEDERAL CONSISTENCY APPEAL BY THE MILLENNIUM PIPELINE
COMPANY, L.P. FROM AN OBJECTION BY THE NEW YORK DEPARTMENT OF
STATE

In a letter dated September 26, 2002, the Department of Commerce requested comments from the Department of Energy on an appeal by the Millennium Pipeline Company, L.P. (Millennium) from the State of New York's objection to Millennium's consistency certification for a proposed natural gas pipeline. On September 19, 2002, the Federal Energy Regulatory Commission (FERC) issued a final Order authorizing Millennium to construct and operate a 424-mile natural gas pipeline from an interconnection with facilities to be constructed by TransCanada PipeLines Limited at the United States-Canada border at Lake Erie, through New York, to a terminus in Mount Vernon, New York.¹ According to the FERC final Order, when the pipeline is finally constructed, it will help meet increasing energy needs of the northeast U.S., including New York City, where new infrastructure is needed to bring natural gas supplies to market.

The Millennium Pipeline Project is Necessary in the Interest of National Security

The Department of Energy supports Millennium's appeal, and urges the Secretary of Commerce to override New York State's consistency objection based on the first substantive ground set forth in the Coastal Zone Management Act (CZMA, 16 U.S.C., 1451, *et seq.*), and implementing regulations (Subpart H, 15 C.F.R. Part 930), that a proposed activity is "consistent with the objectives and purposes of the Act." The Department of Energy believes the Millennium Pipeline is "consistent with the objectives and purposes of the Act" because it furthers the national interest of "attaining a greater degree of energy self-sufficiency," (16 U.S.C. §1451 (j)) and "the effective management, beneficial use, protection and development of the coastal zone" (16 U.S.C. § 1451 (a)).

National Energy Policy—Natural Gas Pipeline Infrastructure, Canadian Imports, and Energy Security

The National Energy Policy report (issued May 2001) sets out a comprehensive national strategy for increasing energy supplies while protecting the environment. The report emphasizes the importance of adequate infrastructure to deliver energy to industry and consumers in a reliable

¹100 FERC ¶ 61,277 (CP98-150-000, *et al.*) Millennium Pipeline Company, L.P. is a consortium sponsored by four major U.S. and Canadian energy firms. Columbia Gas Transmission Corporation, a unit of NiSource, Inc., is the largest interest holder, developer and operator of the pipeline. Other project sponsors are TransCanada PipeLines Limited, Westcoast Energy Inc., and MCN Energy Group Inc.

and safe manner. The U.S. energy infrastructure has not kept pace with changing requirements of our overall energy system. Specifically, natural gas pipelines have not expanded sufficiently to meet demand, and current domestic natural gas transmission capacity of approximately 23 Tcf will not meet the projected 50 percent increase in U.S. consumption by 2020. The Millennium Pipeline project would significantly contribute needed energy infrastructure and supplies to New York and the crucial northeast corridor.

The security of fossil energy supplies remains a prominent issue despite recent relative market tranquility. In recent years, the United States has reduced vulnerability to supply disruptions by increasing the efficiency of energy use, continuing to emphasize emergency preparedness, helping to develop diverse world oil and natural gas sources and alternative fuels, and increasing our attention to domestic energy systems security. However, recent statistics indicate our nation faces increases of 50 percent for natural gas usage over the next two decades. We must seek to strengthen our energy security by working cooperatively with key trading partners to expand our energy supplies. Canada has become our leading foreign supplier of natural gas, providing 16.4 percent of U.S. natural gas demand in 2001. Canadian natural gas supplies, including those projected for the Millennium Pipeline project, will continue to provide necessary energy supplies for the U.S. market into the foreseeable future.

The Millennium Pipeline—Necessary for U.S. Natural Gas Supply Security and Electricity Generation

Natural gas is the third-largest source of U. S. electricity generation, accounting for 16.5 percent of generation in 2001, and 23 percent of the electricity generated by fossil fuels. Electricity generation by natural gas is expected to increase to 33 percent in 2020. In fact, in 2000 natural gas-fired generation represented nearly 95 percent of all new capacity addition in the U.S. Because of lower capital costs, higher efficiencies, and lower emissions, natural gas has an advantage over coal and other fuels for additional electricity generation in many areas of the U.S., including the northeast. The Department of Energy supports significantly increasing domestic natural gas supply to be used in electricity generating systems, because natural gas is clean-burning, and new gas-fired generating technologies make economic sense. A significant portion of the natural gas that would be transported to the U.S. through the Millennium Pipeline would be used for electricity generation.

In its final Order, FERC states that it relied on market growth data that forecast significant demand for natural gas in the New York City area. Current forecasts continue to project the need for additional infrastructure to meet growing energy demands in the northeast U.S. FERC cites the Energy Information Administration's (EIA) *Annual Energy Outlook 2002*, which projects that commercial, industrial, and residential gas consumption in the northeast will increase by 11 percent between 2001 and 2006, and 26.4 percent between 2001 and 2020. The EIA also projects that demand for natural gas for electric generation in the northeast will increase by 36.6 percent and 121 percent, respectively, over those two time periods. EIA data shows that in 2000 New York was the fourth largest natural gas consuming state in the U.S. with a total of 5.6 percent

of the national use. While natural gas usage is high in New York, it produces less than one percent of the gas used in the State, relying on supplies from other States and countries for 99 percent of its gas. Those supplies are delivered to New York almost exclusively by interstate pipelines such as the Millennium project.

In further support for its authorization of Millennium, FERC states:

New York's Draft 2002 State Energy Plan forecasts that demand for natural gas in the state will increase by 73.4 percent between 2000 and 2021 and that demand for electricity will increase 16.5 percent during the same time frame. We believe that the industry trend is toward gas-fired electric generation. We see no change in this trend and expect that the growing electricity needs of New York City will be met in this manner. While it remains to be seen how accurate these forecasts will actually be, there is no doubt that this region continues its population and economic growth and needs additional pipeline capacity. . . . The increasing demand for natural gas to feed industrial growth, as well as new and planned gas-fired electric power generators, continues to place a large burden on the local natural gas infrastructure. Thus, we believe that there is ample evidence that the New York City area will need additional pipeline capacity in both the short and long term and that the market for natural gas fired electric generation will continue to grow and will support the additional infrastructure Millennium will add (page 25, September 19, 2002, FERC final Order).

The Department supports FERC's findings, and believes construction of the Millennium Pipeline would be a positive and necessary step toward modernizing U.S. natural gas infrastructure.

Energy Project Siting and the Coastal Zone Management Act

Over the past two decades, the Coastal Zone Management Act has affected permitting of many energy facilities, including ports and terminals for oil, natural gas, and coal imports and exports, and power plants. State and Federal agencies have mostly cooperated to safely permit these energy activities, while coping with competing coastal use interests and providing effective environmental protection. However, the Department is concerned that, in some cases, Federal and State agency partnerships created by CZMA have become strained, causing delays, or cancellation of major energy projects, which have resulted in negative financial impacts and lost domestic energy resources. The Department believes that the CZMA regulations should not be used to delay or block vital energy projects, such as the Millennium Pipeline, and that the Secretary of Commerce should consider State of New York's objection in an expeditious manner, so that the project may move forward as FERC has authorized. Because FERC has responsibly and thoroughly evaluated the environmental issues inherent in the Millennium Pipeline project, we have no reason to doubt the correctness of FERC's conclusion that the proposed Hudson River crossing at Haverstraw Bay is the appropriate route for the Millennium Pipeline project.